BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 1997	Docket No. R97-1

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
GEORGE S. TOLLEY (NAA/USPS-T6-1-17)
September 17, 1997

The Newspaper Association of America hereby submits the attached interrogatories to United States Postal Service witness George S. Tolley (NAA/USPS-T6-1-17) and respectfully requests a timely and full response under oath.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

September 17, 1997

Michael Yourshaw

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NAA/USPS-T6-1. Please refer to your direct testimony at page 15 lines 19 to 20. Please identify and provide all of your analyses which "check prediction performance in the recent past."

NAA/USPS-T6-2. Please provide a history of the estimated own-price and cross-price elasticities for each subclass or category of mail presented by you or other employees of RCF for each postal rate or classification proceeding in which you have participated.

NAA/USPS-T6-3. Please provide separate versions of Chart B (page 27 of your direct testimony) for First Class single piece letters and First Class workshared letters.

NAA/USPS-T6-4. Please refer to the cross-price and cross-volume effects between single-piece First Class letters and Standard A mail shown in Table 2 (page 38 of your direct testimony):

a. If single-piece First Class letters are a positive function of Standard A volume, and Standard A mail volume is a negative function of Standard A prices, does the cross-volume coefficient include a "second-order" cross-price effect? Please explain your response.

b. For the purposes of developing Ramsey prices, should any price effects inherent in the cross-volume term be included in the cross-price elasticities. Please explain your response.

c. Please confirm that the own-price elasticities for Standard A Regular and Standard A ECR mail are, on average, approximately -0.5, the cross-volume elasticity for Standard A ECR mail is 0.04, and the estimated cross-price elasticity between First Class single piece letters and Standard A Regular is 0.019. If you cannot confirm any of these elasticities, please provide the correct elasticity.

d. Given the elasticities listed in part (c) above, please confirm that changes in the price of Standard A mail will have little or no long-term effect on forecast single-piece first-class letter mail, since the cross-price and cross-volume effects offset one another? Please explain your response.

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NAA/USPS-T6-5. Please refer to your discussion of user costs at page 41 of your direct testimony. Please explain in detail how the 11.17 percent effect was calculated, and indicate the change in user cost that was associated with the 11.17 percent decline.

NAA/USPS-T6-6. Please refer to your discussion of user costs at page 45 of your direct testimony. Please explain in detail how the 23.91 percent effect was calculated, and indicate the change in user cost that was associated with the 23.91 percent increase.

NAA/USPS-T6-7. Please refer to your direct testimony at page 68 lines 9 to 13.

a. Does this observed behavior indicate that a cross-price elasticity exists between private cards and Standard A mail? Please explain any negative response.

b. In light of this observation, please explain why no Standard mail price term appears in the forecasting equation for private cards.

NAA/USPS-T6-8. Please provide a version of Table 5 (page 71 of your direct testimony) for single-piece and workshared private first class cards.

NAA/USPS-T6-9. With regard to the inclusion of the prices of substitutes in the econometric analysis:

a. Please explain generally why the prices for substitutes to Standard A Regular and ECR mail were included in the econometric analysis, while prices for substitutes to First Class Mail were not included.

b. If specific prices for substitutes were excluded from the Standard A equations, would the estimated own-price elasticities for Standard A mail be lower (in absolute value)?

c. If specific prices for substitutes for First Class Mail were included in the econometric analysis, would the own-price elasticities for First Class Mail be higher (in absolute value)?

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NAA/USPS-T6-10. Please refer to your direct testimony at page 58. You observe that advertising represents an increasing share of First Class letter mail.

a. Please describe the substitute forms of advertising available to First Class letter mailers?

b. Did you consider the inclusion of the prices for substitute advertising in the equation for First Class letter mail? If no, please explain why not. If yes, please explain what substitute advertising prices were considered, provide the results of any alternative regression equations, and explain why these prices are not found in the final First Class letter mail equation.

NAA/USPS-T6-11. With regard to the disparate consumption elasticities of Standard A Regular mail and Standard A Nonprofit mail:

a. Please confirm that the personal consumption expenditure elasticity for Standard A Regular mail is 1.6. If you cannot confirm this elasticity, please provide the correct figure.

b. Please confirm that the personal consumption expenditure elasticity for Standard Nonprofit mail is 0.6. If you cannot confirm this elasticity, please provide the correct figure.

c. Given the elasticities in part (a) and (b) above, is it reasonable to conclude that commercial (for-profit) advertising mailers have been able to gain more volume through targeting (see Mr. Thress' testimony at page 74 lines 19 to 22) than have non-profit mailers. Please explain your response, and identify all other factors which contribute to the disparate consumption elasticities.

NAA/USPS-T6-12. With regard to the general approach for forecasting mail volumes:

a. Please confirm that mail volumes are indexed to a base period and are then forecasted based on indexes of explanatory variables and the associated elasticities. If you cannot confirm this statement, please explain your approach to forecasting mail volumes.

b. Please explain generally why this "indexing" method is used rather than using values fitted to the original estimated equations.

c. If base period volumes vary from the fitted values due to measurement error or some other non-continuing omitted factor in the econometric analysis, will your methodology inherently perpetuate this variance? Please explain any negative response.

d. Please provide a comparison table of the base period volumes used for each category of mail and the fitted volumes estimated econometrically for the same period.

NAA/USPS-T6-13. With regard to the economic data forecasted by DRI/McGraw-Hill (Workpaper 1, page 1-4), please provide a comparison of the economic forecasts from the February 1997 25 year forecast with the most recently available forecasts.

NAA/USPS-T6-14. With regard to your trend forecasting methodology for the price of computer equipment (Workpaper 1, page 1-5):

a. Please provide all of your reasons for determining that a trend forecast for the price of computer equipment represents a reasonable method for forecasting this parameter.

b. Please provide the historical data series for this variable (P_PCE_COMP), including any observations that are currently available but were not used in the econometric analysis.

NAA/USPS-T6-15. With regard to your forecast for the CPM for newspaper advertising (Workpaper 1, pages 1-5 to 1-8):

a. Please define the variable LNEWC and indicate its relationship to CPM_NWS.

b. Please provide the actual and fitted observations for LNEWC for the regression analysis shown on page 1-7.

c. Please provide all reasons for your assumption that "[n]ewspaper circulation is assumed to be constant in the forecast period" at page 1-8.

d. Please provide a table of the historical data series for newspaper circulation used in your analysis.

e. Please explain the reasons for a positive coefficient on the AR{1} term and a negative coefficient on the AR{2} term in the Box-Jenkins regression results.

NAA/USPS-T6-16. With regard to your forecast of television CPM (Workpaper 1):

a. Please define the variables LTVCIRC and LTVC and indicate the source of the data.

b. Please provide a table showing the historical data series for actual television circulation, fitted circulation, actual cost and fitted cost. Please include any actual observations that were not included in the econometric analysis.

c. Please provide all reasons why a quadratic time trend method was used to forecast television circulation.

NAA/USPS-T6-17. With regard to your forecast of radio CPM (Workpaper 1):

a. Please define the variables LRADCIRC and LRADC and indicate the source of the data.

b. Please provide a table showing the historical data series for actual radio circulation, fitted circulation, actual cost and fitted cost. Please include any actual observations that were not included in the econometric analysis.

c. Please provide all reasons why a quadratic time trend method was used to forecast radio circulation.